ASU-SCOTTSDALE CENTER FOR NEW TECHNOLOGY & INNOVATION: CITY OVERVIEW AND ANALYSIS OF PROPOSAL

1. BACKGROUND

For the past several years, the City of Scottsdale has been looking at ways that it could create more significant, long-term relationships with ASU. There have been numerous suggestions made that the City's long-term economic sustainability, especially for southern Scottsdale, is intricately tied to establishing a stronger relationship with ASU. For example, in last year's Morrison Institute report "Which Way Scottsdale?" one of the key suggestions made was that the City must find a way to partner with ASU on a long term basis. Further, under the leadership of Dr. Michael Crow, ASU has been making significant inroads into remaking itself as a serious national player in terms of educational quality, research, and reputation.

2. CURRENT PROPOSAL

A. ASU-Scottsdale Center for New Technology and Innovation

- As part of Dr. Crow's long-term plan to make ASU a nationally recognized educational leader, there is a strong focus on significantly increasing their annual research activity, through more grants, direct research contracts, etc. In light of that, the ASU Foundation (the fundraising arm of the University) has approached the City about developing an ASU-Scottsdale research campus on the site of the former Los Arcos Mall at the southeast corner of Scottsdale and McDowell, which would focus not on teaching, but rather on research. Most of ASU's primary research functions would be consolidated over time at this location. The focus at this location would be on direct University research and on technology transfer to the private sector; it is anticipated that there would also be some private research at this same location.
- The plan calls for development of between 900,000 and 1.2 million square feet of research lab and office space on the site; the physical "feel" of the site would be akin to a mixture of the ASU campus and Kierland Commons, with a series of 3-5 story buildings in a campus-like setting, with strong pedestrian and neighborhood connections, structured parking, and a variety of ancillary uses, such as retail, a business hotel, etc.
- Buildout is expected over a 6-10 year period, with the first 150-250,000 sq.ft. building opening in the first 18-24 months, followed by a projected additional 150,000 sq.ft. every 18 months. Total development costs would likely exceed $300 million.
- This campus would be expected to create up to 4,000 jobs, most of which would be relatively high paying jobs, with average salaries higher than current average Scottsdale figures.
- The ASU Foundation/ASU will finance the construction of the buildings for this campus; they would be looking to the City to provide both the land and the basic infrastructure necessary to support this project.

B. Project Benefits

- Direct benefits (on site) would be the creation of up to 4,000 high paying jobs, as well as the direct economic and fiscal benefits of the retail and hotel components.

There would also likely be significant positive exposure for the City as a major research center.

- The indirect benefits for the community would be that this project would be seen as the catalyst for Scottsdale revitalization, and would likely induce significant new reinvestment both in the retail and residential segments of this area of the community.
- Another key benefit would be the establishment of a direct relationship with ASU, which is seen as a key player in the long term economic sustainability of the area.

C. Cost to the City of Scottsdale

- Land acquisition: $41.5 million – the ASU Foundation has an agreement to purchase the site from the current landowner for that amount. The City would acquire the site from the ASU Foundation, and then enter into a long-term ground lease with the Foundation for their use of approximately 90% of that space for the proposed Center for New Technology and Innovation. The Foundation's agreement with the current owner requires a closing by 7/30/04. The City would reserve approximately 5 acres of the site for future related uses.
- Infrastructure: Estimated $40-50 million – basic infrastructure required for this site would include internal streets, utilities, landscaping, and parking structures. While the specifics need be worked out, the projected costs on a year by year basis would be roughly:

FY04/05:	$10 million	(site preparation and basic infrastructure)
FY05/06:	2 million	
FY06/07:	2 million	
FY07/08:	2 million	
FY08/09:	12-17 million	(parking structure)
FY09/10:	12-17 million	(parking structure)

- The City would retain ownership of both the land (on a long term ground lease to ASU) and the infrastructure improvements.

D. City Financing Options

- Land Acquisition

  The recommended approach to paying for the land acquisition ($41.5 million) would be to use MPC bonds to purchase the land, with interest only payments for the first 3-5 years, followed by a principal and interest amortization over the remaining 27-30 years. Total cost to the City, including financing costs, is still being determined, but is estimated to be in the $80-85 million range.
- Infrastructure

  The recommended approach to paying for the infrastructure ($40-45 million) would be to use a pay-as-you-go approach for the initial years (using the City's Economic Stabilization Fund, CIP funds, and contingency) to pay for the basic site infrastructure and then, depending on timing and availability of City resources to pay for the parking structures when they are needed, the City could look to additional pay-as-you-go funding or MPC bonds to cover those costs; the costs for the parking structures could be offset if the decision were made to charge for parking.

3. ECONOMIC/FISCAL IMPACT

A. Overall Economic Impact

- This project was plugged into two local econometric models to determine the macro economic impact on the entire region; while the numbers vary in these

models (due to the assumptions and calculations contained within each) the overall magnitude of the impact in either case is very large:

a. GPEC model: Over a 30-year timeframe, this project would generate to the entire Valley total direct revenues of $129 million; over 8,500 direct and indirect jobs, and $3.9 billion in direct and indirect personal income.
b. APS model: Over a 30-year timeframe, this project would generate to the entire Valley total direct revenues of $395 million; over 8,400 direct and indirect jobs, and $7.4 billion in direct and indirect personal income.

The primary difference between these two models is in the assumptions relating to the economic multipliers used within each.

B. Current South Scottsdale Trends (baseline)

- Sales tax in this area (Thomas Rd. south to the City limits) is currently declining at a 4% loss each year over the past 5 years; in the last year, the loss was 7%.
- Property tax revenues in this area are declining at an average 3% loss each year over the past 5 years.
- Most other economic indicators from this area are negative as well, and there has been little direct private sector investment in recent years.

C. Project Impact

- Staff has analyzed this project using a threefold fiscal impact approach to this project -- the site itself, key adjacent commercial properties, and the area in general. The following is a summary of that analysis. It should be noted that staff has used very conservative assumptions in determining these impacts – there is no inflation included; no growth in revenues beyond the initial years; only primary revenue sources are included (for example, no inclusion of City permit and fee revenues); and no multipliers were used. Furthermore, there is no estimate of the indirect revenue that will result from the employment generated by this site.

1. Direct Site Benefits: These include direct City revenues from this site, in terms of sales tax, property tax (improvements only – land would not be taxed due to City ownership), hotel bed tax, construction sales tax, lease revenue, etc. There would potentially be other revenues available off of the site (such as parking revenues if the decision were made to charge for parking in the structures) but those have not been taken into account. The total estimated new revenues over the next 30 years are projected to be **$29.9 – 33.1 million.**

2. Induced Revenue Changes to Key Adjacent Properties: We have assumed that this project will induce significant short term changes at 3 key properties near this project: the redevelopment of Los Arcos Crossing at McDowell and 74th St. (assumed a new Bashas, a new drug store, and a new discount department store as key anchors), the redevelopment of the old K-Mart site at Hayden and McDowell (assumed a home improvement store), and the stabilization of the McDowell corridor auto dealers (no further losses of dealers or revenues versus current negative growth). The net impact of these changes in terms of new direct revenues to the City over the next 30 years is projected to be between **$109.3 – 120.8 million.**

3. Overall Enhancement to South Scottsdale Generally: We have also assumed that this project and the other induced project changes will result in the stabilization of the entire area south of Thomas Road, as the demand for commercial and residential space grows. This would translate into higher

sales taxes, higher property values (and therefore property taxes) and so on. Using a conservative assumption of no change in this area in terms of revenues versus the current decline of 3-4% per year, over 30 years the City would see an additional **$29.3 – 32.3 million.**

TOTAL NET BENEFIT TO THE CITY OVER 30 YEARS: $168.5 – 186.2 Mil.

4. TIMING/NEXT STEPS

- City Council meeting 6/28 -- discussion and action on purchase of land and Memorandum of Understanding with ASU Foundation
- Close on purchase of land by 7/30
- ASU begins planning and design work immediately
- Anticipated opening of phase 1 in early 2006
- Total buildout anticipated to be complete by 2010-2014.